

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 57th LEGISLATURE - REGULAR SESSION COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB STORY**, on February 7, 2001 at 8:00 A.M., in Room 472 Capitol.

ROLL CALL

Members Present:

Rep. Bob Story, Chairman (R)
Rep. Ron Erickson, Vice Chairman (D)
Rep. Roger Somerville, Vice Chairman (R)
Rep. Joan Andersen (R)
Rep. Keith Bales (R)
Rep. Joe Balyeat (R)
Rep. Gary Branae (D)
Rep. Eileen Carney (D)
Rep. Larry Cyr (D)
Rep. Rick Dale (R)
Rep. Ronald Devlin (R)
Rep. John Esp (R)
Rep. Gary Forrester (D)
Rep. Daniel Fuchs (R)
Rep. Verdell Jackson (R)
Rep. Jesse Laslovich (D)
Rep. Trudi Schmidt (D)
Rep. Butch Waddill (R)
Rep. Karl Waitschies (R)
Rep. David Wanzenried (D)

Members Excused: None.

Members Absent: None.

Staff Present: Jeff Martin, Legislative Branch
Rhonda Van Meter, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: HB 428, 2/2/2001; HB 197,
2/2/2001
Executive Action: None.

HEARING ON HB 428

Sponsor: REPRESENTATIVE GARY FORRESTER, HD 16, Billings

Proponents: Webb Brown, Montana Chamber of Commerce
Amy Orser
Peggy Trenk, Montana Realtors Association
Riley Johnson, National Federation of Independent
Businesses
Charles Brooks, Billings Area Chamber of Commerce
Mary Whittinghill, Montana Taxpayers Association

Opponents: None.

Opening Statement by Sponsor:

{Tape : 1; Side : A; Approx. Time Counter : 1.9}

REP. FORRESTER said there is an amendment fixing the technical difficulties mentioned in the fiscal note. **EXHIBIT (tah31a01)** This bill was originally to help the situation keeping entrepreneurs from entering Montana. The tax structure on the top two brackets needs to be adjusted, and this bill will do it. This bill offers tax relief across the board. Both parties have endorsed tax cuts across the country, so this is a bipartisan issue. It would stimulate the economy in Montana. Agriculture is suffering in Montana, and there is no other bill out there that will help these people in Montana. It keeps the Federal deductibility in place and does not impose a marriage penalty.

Proponents' Testimony:

{Tape : 1; Side : A; Approx. Time Counter : 5.4}

Webb Brown, Montana Chamber of Commerce, said this is a simple bill but a great thing to do.

Mary Whittinghill, Montana Taxpayers Association, said they believe that if tax reform is to take place this session, this is the way to go. Across the board tax cuts, keeping the Federal deductibility, and maintaining no marriage penalty is necessary under our economy today. Tax shifting is not appropriate, and this bill is the correct application for income tax reform. Many of the economists today believe that income tax reductions will stimulate growth in the economy. Even a small reduction right now would help generate even more revenues than the lost revenues seen on any fiscal note.

Charles Brooks, Billings Area Chamber of Commerce, read a statement from their policy manual regarding the high income tax rate in Montana. It is time to put together a major overhaul of the tax system in Montana. This would spur the economy of this state. They recognize the fiscal impact of this bill, but they also recognize that we must address the tax structure of Montana.

Peggy Trenk, Montana Association of Realtors, said they have seen the fiscal note and recognize the money probably is not there to support this, but this bill provides an example of what true tax reform should be about. The resources this bill would free up is the kind of money that could build this economy.

Questions from Committee Members and Responses:

{Tape : 1; Side : A; Approx. Time Counter : 10.5}

REP. ESP asked if the sponsor has talked with the governor's office or appropriations about how to come up with the necessary cuts to finance this bill. **REP. FORRESTER** said he has talked with Ed Bartlett who claims the money is not there. There is no budget estimate yet, so we can take it from there.

REP. WAITSCHIES asked if the sponsor would endorse a sales tax amendment. **REP. FORRESTER** said this is an income tax bill, and if the representative wants to submit a sales tax bill there is still time to do that. He wants to keep this bill simple, so he would oppose an amendment like that.

REP. BALLYEAT asked if the sponsor is aware of the technical concern with the bill that for incomes between \$28,000 and \$35,000 it applies a zero tax rate. **REP. FORRESTER** said the amendment handed out will take care of that problem. **REP. BALLYEAT** asked how this affects the fiscal note. **REP. FORRESTER** said it would drop it down to about \$141 million.

REP. WADDILL asked where Montana would rank in comparison with the other states if this bill is adopted. **REP. FORRESTER** said he does not.

REP. SOMERVILLE asked if the sponsor talked with the CPA's regarding their concerns about the bill. **REP. FORRESTER** said he feels this is a starting point, and if this committee is not afraid to take some action, we can come out with some real tax reform. This bill has no tax shifting, is simple, and he does not want to complicate it with a bunch of amendments. He does not understand how any CPA could not understand this bill.

REP. DEVLIN asked for clarification that this bill only changes the tax rate and not any deductions or Federal deductibility.

REP. FORRESTER said this bill does not impose a marriage penalty tax, leaves the Federal deductibility in place, and reduces the income tax rate.

REP. ERICKSON asked if this bill achieves simplification. **Mary Whittinghill** said they believe the income tax system currently in place was designed for many economic reasons, and the simplification proposed during the interim was mostly in regard to the difficulty of married filing separately. The Federal government in their examination of the married filing separately is looking at a method similar to Montana. There are other ways to take care of this complication, and they would be willing to work on some amendments with the sponsor to make it even more simple. **REP. ERICKSON** asked what the association feels what should be cut if this bill goes forward. **Mary Whittinghill** said they are concerned about maintaining a civilized society and believe taxes are necessary. While they support this bill, they understand there is difficulty right now on the revenue side; however, if we do not start looking at sending a positive message on reducing income taxes in Montana, we are getting further behind in economic development. There needs to be a balance, but the conceptual framework of this bill is appropriate. **REP. ERICKSON** asked if the association would more agree with Senator Ellis' bill taking care of the perception problem and simplification or this bill. **Mary Whittinghill** said there were some positive aspects of Senator Ellis' bill. One of the problems in Montana with the high marginal rate is that we are not marketing our actual tax structure. When businesses contact Montana and receive a packet of information, it does not describe fully the overall tax picture and the effective rates. They would like to see some additional efforts taken by the state in actually marketing what the real effective rate is for income taxes, which they still believe are high, but it would possibly help in attracting businesses here. **REP. ERICKSON** asked the sponsor for his ideas of where to cut expenditures if this bill were to pass. **REP. FORRESTER** said we should ask the people what it costs to close a mine, Asarco, or a sugar factory. This is an economic relief bill. The first year he served in the legislature, they cut \$100 million out of the budget. He does not want to get into the argument of what programs could be cut. If this legislature does not take some action now, the consequences are going to be severe.

REP. BALLYEAT asked if the sponsor believes this is a simple bill but does not offer tax simplification. **REP. FORRESTER** said he does see simplification. It does not impose a marriage tax penalty and leaves the Federal deductibility in place. **REP.**

BALYEAT asked if it leaves everything the same as it is and just simply changes the rates how the sponsor feels it is simplification. **REP. FORRESTER** said if you look at the perception of a high marginal rate of 11%, this bill decreases that, and he thinks that is simplification. **REP. BALYEAT** asked if this still allows for a problem between perception versus effective rate. **REP. FORRESTER** said they could talk about this all day.

REP. ESP asked if the sponsor believes a possibility to get the money would be to make cuts in transportation and health and human services and to lay off employees. **REP. FORRESTER** said they can talk theory all day. This bill does not cut any single agency. If this bill passes out of committee and he needs to support some cuts, he can do that if he thinks the cuts are justified. The appropriations and tax process have to work in a way that compliments one another. **REP. ESP** asked if the sponsor is willing to cut the size of government. **REP. FORRESTER** said that he is.

REP. BALES agrees that agriculture is hurting and asked for a comment from the sponsor regarding backfilling the counties with income tax money for property tax relief. **REP. FORRESTER** said in 1995 he sponsored a bill that proposed tax relief and offered a backfill to the counties, and this is important.

REP. CARNEY mentioned the business equipment tax cuts given and asked the sponsor to comment. **REP. FORRESTER** said anytime taxpayers have the money in their pocket they can make better choices than government.

REP. WANZENRIED asked if the governor's office elaborated on the reason they did not want an income tax cut similar to this right now. **REP. FORRESTER** said when talking to Ed Bartlett he said they fully support both the income tax and business equipment tax bill, but the timing is wrong.

REP. ANDERSEN asked if the sponsor would be willing to work with the Montana Taxpayers Association to work on some amendments.

REP. FORRESTER said he did not expect this bill to go far, but he did expect it to generate some ideas. He would be willing to work with that association. **REP. ANDERSEN** asked if the sponsor feels it is the income tax rate that has hindered the mining industry in Montana. **REP. FORRESTER** said he feels the whole tax structure is what has happened in this state. Electricity deregulation will cost Montana consumers possibly \$200 million per year, and we need to return some money to the people. This bill is one way of helping.

REP. BALYEAT asked if the sponsor is just trying to make a statement or actually wanting to give some relief to the taxpayers. **REP. FORRESTER** said he has talked to the people in the legislature, and they told him there was not a chance this bill would pass. He believes if you do not go forward with an idea, then you cannot accomplish what you set out to do in the legislature.

Closing by Sponsor:

{Tape : 1; Side : B; Approx. Time Counter : 6.6}

REP. FORRESTER said this bill is an honest attempt to point out some of the tax problems. He would be happy to work with anybody on this concept. This could be real tax relief for the people in Montana.

EXHIBIT(tah31a02) Witness statement.

HEARING ON HB 197

Sponsor: REPRESENTATIVE DAVE GALLIK, HD 52, Helena

Proponents: None.

Opponents: None.

Opening Statement by Sponsor:

{Tape : 1; Side : B; Approx. Time Counter : 8.3}

REP. GALLIK said this bill will allow any person in Montana to file their Federal tax form in lieu of a state tax form if they choose. This is simplification and convenience, and a lot of people will take advantage of this. On the fiscal note there is a concern this may be in violation of a Federal law. He does not believe this is true because the choice is optional. The fiscal note also says there may be a significant number of taxpayers who will opt to pay the tax calculated using the alternative method even if the liability is higher than under the current law for the convenience and simplicity, and he agrees with this.

Questions from Committee Members and Responses:

{Tape : 1; Side : B; Approx. Time Counter : 15.8}

REP. BALYEAT asked if there is any way to resolve the potential problem of people switching back and forth between options, as

this could actually cost the state more money. **REP. GALLIK** said the intent behind this bill is to look at one calendar year. If the committee believes this is an issue that needs to be addressed, amendments could be offered to disallow this. **REP. BALLEAT** asked if the sponsor could envision a way to amend the bill to deal with that problem. **REP. GALLIK** said right now no, but he would think about it and get back to the committee. **REP. BALLEAT** said there are constitutionally mandated differences between Federal income and state income and asked if the sponsor sees any problem with this issue. **REP. GALLIK** said this is optional, and because it is optional it does not mandate anybody to pay any tax on anything they would not have to under the system in place right now. **REP. BALLEAT** asked if the sponsor just wants to go along with what the Federal government decides is good tax policy. **REP. GALLIK** said absolutely not. This bill is optional. People can decide what they want to do. **REP. BALLEAT** asked if there could be some late pay problems because they are asking the Department of Revenue to calculate what they owe. **REP. GALLIK** said he wants to pursue the idea that you could just send in the copy of the Federal form and have the Department calculate the state amount owed. With late payments, you will have the same situation that already exists with filing an extension, as you still need to make a good faith estimate and pay something.

REP. ERICKSON asked what the sponsor would cut in order to give this tax break since the fiscal note shows a loss. **REP. GALLIK** said he does not want to cut anything, but he could probably find some areas that could possibly be cut. The idea was not to have a tax cut and make it revenue neutral. You could do this by adjusting the tax brackets up or down or take out the multipliers.

REP. WAITSCHIES asked if the sponsor has looked at eliminating 1040EZ and 1040A. **REP. GALLIK** said he had not considered this, but if the committee feels this is appropriate they should go forth.

REP. STORY asked for the sponsor's thoughts regarding financial stability when this is tied to the tax cuts or increases made by the Federal government. **REP. GALLIK** said we meet every other year to make adjustments around this, so if the Federal government does something that significantly impacts Montana's state structure, they would have a chance to respond. Again this is optional. It should be known to everybody that you would pay more to choose this simpler option.

REP. BALLEAT asked if it would be easy to make this bill revenue neutral. **Larry Finch, Department of Revenue**, said this bill could be a lot more neutral than it is at this point. You can devise rate tables to make this revenue neutral, but then the question becomes under the assumption people will pay the smaller amount how much people will be willing to pay in addition to what they would otherwise pay before the simplification aspect. **REP. BALLEAT** asked if people are going to choose whichever option is the lowest amount it would be very difficult to make it revenue neutral. **Larry Finch** said if the rate tables were tightened up in the bill and still gave the option for people to choose, you can get to revenue neutrality.

REP. ERICKSON asked for an opinion on the technical note regarding Native Americans and interest on U.S. bonds. **Larry Finch** said if you were allowed the choice of using Federal taxable income and you had in there interest income from U.S. obligations or income as a Native American on a reservation, unless you specifically provided for excluding those types of income from Federal taxable income prior to filing on that basis, you would not have the choice of filing using Federal taxable income because the Federal government precludes this from being done.

Closing by Sponsor:

{Tape : 2; Side : A; Approx. Time Counter : 4.7}

REP. GALLIK said it is important to remember this can be adjusted to achieve the intent. Nobody here can speak for the people that want to save time and energy in doing their tax forms. This is another option of allowing people to assist government by providing a few more dollars to the general fund, and in return they get peace of mind and a little more time to spend with their families.

ADJOURNMENT

Adjournment: 9:10 A.M.

REP. BOB STORY, Chairman

RHONDA VAN METER, Secretary

BS/RV

EXHIBIT (tah31aad)